



Date: June 15, 2015

To: Thomas J. Bonfield, City Manager
Through: Keith Chadwell, Deputy City Manager
From: Kevin Dick, Director, Office of Economic and Workforce Development

Subject: Economic Development Incentive Agreement with Longfellow Real Estate Partners, LLC for Capital Investments related to development of 224 Morris Street, 301 Morris Street, and 302 Morris Street (Durham Innovation District Phase I) in Downtown Durham.

Executive Summary

This item relates to the construction of approximately 271,000 square feet of new commercial space, an associated onsite structured parking facility, and a public park area known commonly as Phase I of the Durham Innovation District (Durham.ID Phase I) located in the Durham Central Park District of Downtown Durham. It also describes the tenets of a possible economic development incentive agreement between the City and Longfellow Real Estate Partners.

Recommendation

1. Conduct a public hearing to review the highlights of an economic development incentive agreement between Longfellow Real Estate Partners, LLC and the City of Durham; and
2. Authorize the City Manager to negotiate an economic development incentive agreement between the City of Durham and Longfellow Real Estate Partners, LLC for capital investment associated with construction of Durham.ID Phase I, for a total incentive payment amount not to exceed \$5,250,000.00 over 15 years.

Background

Durham.ID Phase I (phase 1 of 5 in the proposed master development), with an estimated total qualified capital investment of \$87,000,000.00, would realize new construction along Morris Street in the Durham Central Park District of Downtown. Durham.ID Phase I would consist of approximately 271,000 square feet of commercial space including laboratory (126,000 square feet) and Class A office (145,000 square feet), as well as an approximately 820 space parking garage, and a public park area to be maintained in perpetuity by Longfellow. Longfellow additionally proposes approximately \$8,300,000.00 in public infrastructure improvements made to streets, sidewalks, etc., located in the vicinity of the project.

Durham.ID Phase would expand Durham's tax base by generating new property tax revenue. The project would continue to enhance the downtown environment; an identified objective of the 2015 Joint City-County Economic Development Strategic Plan endorsed by the City Council. Anticipated

new jobs created by Durham.ID Phase I would consist of as many as 850 permanent jobs created by tenants, and as many as 780 temporary construction jobs.

All City payments would be “performance based”, meaning Longfellow Real Estate Partners, LLC would not receive any payments from the City until after the project construction is complete and incremental property tax revenue generation has commenced. Longfellow would also be required to maintain a minimum level of occupancy for new development during the term of the agreement to encourage job creation and to maintain continued eligibility of city incentive payments. A Durham-Based Business Plan and Durham Workforce Development Plan would also be required for the project. These plans would stipulate that Longfellow and/or its general contractor would make good faith efforts to engage Durham-based firms in the construction work performed relative to the project, and that Longfellow and its tenants and/or contractors engage the NCWorks Career Center System when hiring temporary staff related to the project.

Issues and Analysis

Staff is proposing a \$5,250,000.00 incentive to be paid over a 15 year period after the building is completed. No payments to Longfellow would be made prior to project completion and verification of the stated capital investment amounts.

Payment to LLC would consist of annual payments subject to the company satisfying the following requirements:

- The required minimum capital investment was made by Longfellow and a certificate of compliance is issued before the completion deadline;
- Maintenance of minimum tenant occupancy of the commercial space constructed;
- Compliance with the tenets of the Durham-Based Business Plan;
- Compliance with the tenets of the Durham Workforce Plan;
- Other tenets of the agreement to be negotiated, including the terms associated with the availability of the park to the public, the availability of at least 50% of the proposed parking deck to the public on nights and weekends and the lease of parking spaces to Longfellow in the Durham Centre Parking Deck.

Alternatives

The City Council may decide not to authorize the City Manager to negotiate an economic development incentive agreement, or may decide to authorize such negotiation with changes. Choosing the former option would likely eliminate the chances for development of the Durham Innovation District in its entirety given the ability of the developer to construct the project is contingent upon public investment. The City would further forego an opportunity for a net tax revenue gain over, and beyond, the period of the incentive.

Financial Impact

The Cash Flow Analysis performed as part of the analysis of the project identifies the financial impact to the City. The payments proposed would be a paid from incremental tax revenues slated to be generated from the project. There would be no impact on the existing general fund. The proposed \$5,250,000.00 incentive would yield payments to Longfellow of \$ 350,000.00 annually over the proposed 15 year incentive period, representing approximately 70% of the incremental City property tax revenue generated by the project. Payments would begin in 2020 (assuming that the construction project begins in 2016 and is completed in 2018). An alternative incentive period evaluated by staff would consist of the same \$5,250,000.00 proposed incentive, payable over a shorter 11 year period. The alternative would yield a higher present value incentive to Longfellow.

SDBE Summary

While no specific SDBE provisions are required by ordinance for this agreement, it is understood that if an agreement is approved, Longfellow will be required to make good faith efforts to use Durham-based firms for contracting activities. They will also be required to enter into a Workforce Development Plan to ensure that Durham residents have the first opportunity to apply for available jobs to be created.